

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 L-03 TRSE-00 COME-00

STR-04 FBOE-00 OPR-02 A-01 AID-05 CU-04 IGA-02

SP-02 H-02 ABF-01 SS-15 OMB-01 /072 W

-----100347 181435Z /50

R 180833Z JUL 77

FM AMEMBASSY DAMASCUS

TO SECSTATE WASHDC 3963

INFO AMEMBASSY KUWAIT

AMEMBASSY AMMAN

AMEMBASSY CAIRO

AMEMBASSY ATHENS

AMEMBASSY TEHRAN

UNCLAS DAMASCUS 4488

TEHRAN FOR DEARSMAN

E.O. 11652: N/A

TAGS: ETDR, ELFIN, ELAB, BEXP, ALS, ADS

SUBJECT: NEW TAX LEGISLATION: DIRECT EFFECTS ON USG COSTS.

REF: KUWAIT 2512

1. WITH BUT ONE RESIDENT PRIVATE AMERICAN BUSINESSMAN IN SYRIA NEW TAX LEGISLATION UNDER THE TAX REFORM ACT OF 1976 HAD LITTLE EFFECT SO FAR ON US TRADE HERE. HOWEVER, SYRIAN-US BUSINESS IS EXPANDING RAPIDLY, AND USG PRESENCE PARTICULARLY THROUGH USAID EXPANDING EVEN MORE RAPIDLY AND WILL BE DIRECTLY AFFECTED BY THE 1976 TAX REFORM ACT. WE WILL NOT REPEAT HERE THE EXCELLENT ARGUEMENTS IN THE KUWAIT REFTEL REGARDING THE EFFECT ON PRIVATE US BUSINESS BUT WISH TO POINT OUT ANOTHER DIMENSION TO THE PROBLEM AFFECTING THE USG EXECUTIVE BRANCH AGENCIES DIRECTLY.

2. DAMASCUS IS A PERFECT EXAMPLE OF THE BAHRIAN SITUATION

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DESCRIBED IN ONE OF THE EARLY KISSINGER LETTERS DEALING WITH CHANGES IN THE TAX CODE. A TWO BEDROOM APARTMENT COSTS ABOUT \$15,000 PER YEAR, A LARGER FAMILY APARTMENT, \$20,000. MANY MEMBERS OF MISSION C&R AND SEC STAFF ARE OCCUPYING QUARTERS RENTING FOR MORE THAN ANNUAL SALARY WITH NO DECLINE IN HOUSING COSTS IN SIGHT.

3. THE AMERICAN COMMUNITY SCHOOL CURRENTLY EMPLOYS THREE FULL-TIME AMCIT TEACHERS NOW OCCUPYING SCHOOL PROVIDED APARTMENTS WHOSE PRESENT LEASES ARE UNDER \$5000 PER ANNUM BUT WHICH WILL RUN OUT SHORTLY. NEW LEASES CAN BE EXPECTED TO AVERAGE \$16,000 PER YEAR. THE EFFECT HERE IS PARTICULARLY DISCRIMINATORY. THESE TEACHERS HAD BEEN EARNING \$8500-12,000 PER ANNUM AND HENCE WERE NOT LIABLE FOR TAXATION. THEY COULD NOW BE CHARGED WITH A TAXABLE INCOME OF \$25,000-30,000 PER ANNUM AND TAXED AT THE FULL RATE. BASED ON THE ABOVE ARITHMETIC, TEACHERS WILL OWE AN ADDITIONAL \$2-4000 PER YEAR INCOME TAX WHICH WILL AGAIN BE PASSED ON TO THE SCHOOL BUDGET. DEPT OF STATE TUITIONS AND GRANTS MAY HAVE TO BE INCREASED TO ABSORB THIS COST EVEN ASSUMING NO EXPANSION OF THE SCHOOL.

4. USAID/DAMASCUS EXPECTS TO HAVE APPROXIMATELY 100 RESIDENT AMCIT CONTRACTORS IN SYRIA WITHIN ONE AND A HALF YEARS WHO WILL BE RECEIVING FINANCING FOR APARTMENTS AVERAGING MORE THAN \$15,000 PER ANNUM (AT CURRENT RATES) AS ADDITION TO THEIR SALARIES. IT IS A REASONABLE ASSUMPTION THAT INCREASED TAXES WILL BE PASSED ON DIRECTLY TO THE CONTRACTING PARTY, IN THIS CASE, USAID. CONSEQUENTLY, ASSUMING A 25 PERCENT AVERAGE TAX RATE USAID WILL IN EFFECT BE FINANCING OR TRANSFERRING ADDITIONAL COSTS DUE TO TAX INCREASE \$4000 PER UNCLASSIFIED

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CONTRACTOR EMPLOYEE OR \$400,000 PER ANNUM TOTAL. THE 1976 ACT ALSO TAXES OTHER ALLOWANCES, I.E. EDUCATION, WHOSE IMPACT WILL ALSO BE SUBSTANTIAL.

5. THEROS AND MELROSE MET WITH HILL STAFFER MIKE VAN DUSEN DURING RECENT VISIT OF CODEL HAMILTON AND DISCUSSED THIS ISSUE IN RELATION TO THE SITUATION IN SYRIA. MELROSE ALSO DISCUSSED ISSUE WITH MIKVA AND WIFE. ALL THREE SHOWED SOME INTEREST. MURPHY

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## Message Attributes

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**Review Markings:**  
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